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SUBJECT: POLAND COMPLAINS ABOUT NEW CO2 LIMIT, BUT WILL
FIND A WAY

REF: 06WARSAW 2216

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SUMMARY
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11. The Government of Poland is upset that the EU approved a CO2 emissions limit 1/3 lower than the GOP requested. Although the approved limit is close to Poland's current emission level, and Poland lowered CO2 emissions 18% since 1990, the GOP fears that such a cut-back in emissions will slow future growth of the Polish economy. The announcement of the new CO2 limits came a day before the visit to Warsaw by Margo Thorning, a PAS Strategic Speaker on environmental issues. Thorning's visit focused on how economic growth can help reduce emissions, and how Kyoto targets may be inhibiting growth. The future for Poland's continued reduction in CO2 emissions lies in increased production of biofuels and the use of clean coal technologies. END SUMMARY.

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CO2 Allotment
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12. The EC allotted 208.5 million tons of CO2 to Poland for the years 2008-2012 as part of the European Emissions Trading Scheme (ETS). Poland requested 284.6 million tons, based on an expected growth rate of 5.1% - 6%. Poland's emissions for 2005 amounted to 203.1 million tons, lower than the 239.1 million tons allocated. Because Poland came in under its targets during the period 2005-2007, Polish industry has not been forced to innovate to reduce emissions significantly.

13. Although not forced to do so, Poland reduced its CO2 emissions by 18% since 1990, mostly through modernization of coal-fired power plants. Poland decreased CO2 emissions by more than 25 other EU countries. By retro-fitting old plants

for cleaner burning, emissions went down significantly without a major increase in prices. Due to these reforms, Poland moved from 10th to 20th on the list of the 50 largest polluters worldwide. But, to meet the new targets, much more will need to be done.

¶4. Although Poland is upset about the new CO2 limits set by the EU, it will not be filing a case in the European court as Slovakia did. Almost 80% of Poland's CO2 emissions are generated by the energy and heating sector. The remaining 20% comes mostly from cement producers, and the steel, chemical, paper, and fuel sectors. Poland is currently working through how it will allocate credits among various sectors, with an eye to lessen the potential impact on economic growth.

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Economic impact addressed by Thorning
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¶5. Poland's economy grew at more than 6% in 2006 and promises to maintain similar growth rates for the near future. With such growth comes increased energy use. Poland is now struggling with how to meet the EU-imposed CO2 targets without significantly reducing economic growth.

¶6. This discussion coincided perfectly with the visit of PAS-sponsored Strategic Speaker Margo Thorning of the International Council for Capital Formation (ICCF). ICCF is an organization that promotes economic growth while maintaining environmental protection. Thorning met with the Polish Emissions Trading Administration, the American Chamber of Commerce Environmental Committee, and gave a lecture at the Warsaw School of Economics.

¶7. Thorning's main message was that the U.S. economy grew steadily at around 3-4% while at the same time reducing

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greenhouse gas intensity significantly. She pointed out that as an economy grows faster, it replaces its capital stock faster, resulting in newer, cleaner burning, more efficient capital, machinery, appliances, etc. But, since Europe aims to meet its Kyoto targets, Europe's economy is growing at just over 1% and its greenhouse gas emissions have gone up.

¶8. Thorning's message provides another perspective as the GOP deliberates how to address the new lower CO2 emissions allotment. The GOP is concerned that rapid recent growth could be deterred by the new allotment, as companies would have to cut back production to stay within the target. Or, if Poland does not meet its CO2 target, it will have to purchase carbon credits, which some estimate could cost EUR 2-8 billion if Poland's GDP growth continues to be 6%. However, with insight from Thorning's presentation, it is possible that if the Polish is growing fast enough and replacing capital stock at a faster rate, that their CO2 emissions could go down significantly from the use of more efficient equipment.

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Poland must do more
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¶9. In addition to the lowering of CO2 limits, the EU requires energy from renewable sources to constitute 7.5% of total energy produced in each Member State by 2010. The EU also aims to reduce CO2 emissions by 20%, increase the share of renewable energy in total energy production in the EU to 20%, and increase the share of biofuels in transport to 10% by 2020.

¶10. Currently, 97% of Poland's electricity is generated through the burning of coal and the share of renewable energy in total energy production is only 4%. In order to meet EU targets, Poland needs to invest significantly in biofuels,

the most viable renewable energy source in Poland. The GOP claims that investments in renewable energy sources is an economic priority and plans that by 2010, 4.7% of domestic electric energy production will be generated by biomass, 2.3% by wind, and 1.2% by hydroelectric power. Poland plans to earmark PLN 1.6 billion (\$570,000 million) for renewable energy projects over the next six years, most of which will come from EU funds.

¶11. Although nuclear power is also an option, and is the cheapest option, Poland currently has no nuclear power stations. This year, the GOP announced that it plans to join Lithuania, Latvia, and Estonia in a joint nuclear power project in Lithuania, but electric production is not expected to begin until 2015 at the earliest. Poland is discussing building its own nuclear power plants, but any such plans would not produce power for at least 10-15 years. Investments in wind power are on the rise, with reports of Japanese and Czech firms planning construction. Although wind may be an alternative, it will likely not be a major player in the Polish renewables market as the environmental conditions are not ideal for wind power. Therefore, biomass production, which is on the rise, promises to be the easiest way to increase the use of renewable energy sources. Despite these efforts, experts unofficially state that they don't expect Poland's renewable energy use to go much above 9 or 10% by 2020.

¶12. The real answer to reducing Poland's CO2 emissions will come with clean coal technology. Poland has already invested in cleaner burning coal facilities (ref A), but will need to make the leap to truly clean burning coal to make significant progress. Poland is in discussion with companies worldwide who produce such technologies, but the GOP appears to be awaiting a breakthrough that will lower technology costs.

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COMMENT

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¶13. Poland is rightfully concerned that its lower emissions allotment could hamper economic growth. However, such strong growth is also an incentive to modernize and switch to more efficient and less-polluting equipment. Other EU Member States, such as Germany, who received similarly reduced allotments, are not experiencing such strong economic growth.

Poland has the capacity to increase production of biofuel and alternative sources of energy, but it is unlikely that development of these alternatives will occur fast enough to meet the demands of the next allotment period under the ETS. However, in the longer term, Poland will need to not only produce more biofuels, but also utilize more advanced clean coal technologies to make any significant reduction in overall CO2 emissions.

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